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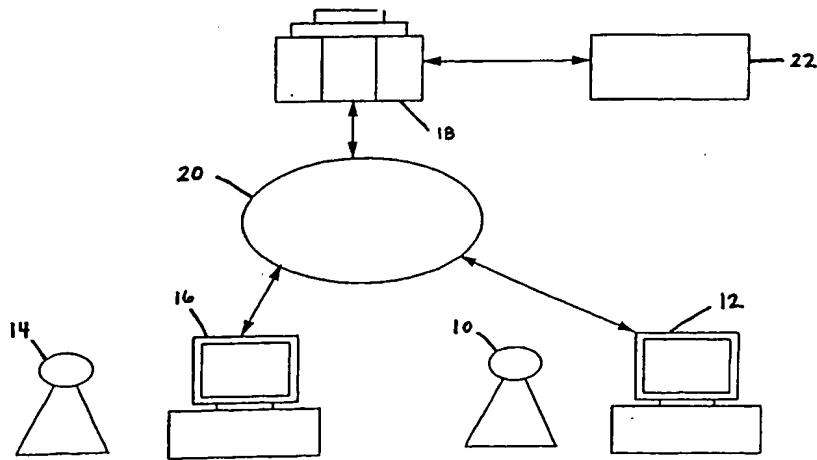
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(54) Title: METHOD AND SYSTEM FOR MANAGING AND CONDUCTING A NETWORK AUCTION



(57) Abstract: There is described a method and system for managing Internet auction transactions by creating an auction website (18) by, for example, a financial institution. The auction website (18) is accessible by the financial institution's account holders (e.g., holders of checking, savings, credit card, and investment accounts). Thus, all buyers (14) and sellers (10) in auction transactions on the auction site, for example, have accounts with the financial institution, with settlements (22) occurring between the accounts of the users at the financial institution. Payments are debited from the buyer's account(s) with a credit going to the account of the seller, less any fees. All charges occur internally, so no interchange is owed, for example, to a card association in connection with a transaction. Financial institution customers benefit from the system in that buyers and sellers are authenticated and settlement occurs almost instantaneously.

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Typically, in such an auction, a user at a terminal, such as the user's personal computer (PC) accesses an auction page on the Internet, such as E-BAY and goes through a registration process. Registering basically means that the user at the user's PC enters the user's address, such as an e-mail address, and an e-mail is sent to the user, for example, at the user's PC, which tells the user that he or she is allowed to bid. The user is also given, for example, a bidding name, and the user sets up a password on the system.

It is well known that anyone, can set up an Internet account for an e-mail address with a service provider, such as AOL or the like, and it is possible for a party to secure an e-mail address while concealing his or her true identity. It is also possible for someone to use another party's e-mail address on an unauthorized basis, and e-mail addresses are commonly stolen and used without the owner's authorization. In short, there are no guarantees associated with an e-mail address as to any identifying characteristics (e.g., age, gender, status) of the user of the e-mail address.

When the user registers on the auction page with the user's e-mail address and receives a bidding name, the user is ready to bid or list with the auction site. In the case of auction sites as with auction houses, at least one of the seller and buyer pays a fee for the opportunity to use the auction site. Usually the seller pays for the ability to list and sometimes pays an additional fee in the form of a percentage of the eventual selling price. The procedure varies for some auction houses, such as SOTHEBY'S, in which the buyer pays the fees. However, as a general rule, it is the seller who pays the fees, and the auction house generally bills or invoices the seller

buyer sends the check or money order to the seller, the buyer takes a substantial risk that the seller actually exists and/or that the buyer will actually receive the good(s) for which the buyer has paid. The buyer expects the seller to package and ship the good(s) to the buyer when the seller receives a money order or a certified check.

5 However, if the buyer pays by personal check, the seller typically waits several weeks for the check to clear before packaging and shipping the good(s). While one auction house has recently started a voluntary verification process in which users can have themselves "verified" by paying a fee and sending information to a credit bureau, the process is voluntary and does not take place on both sides of a
10 transaction.

Accordingly, there is currently a tremendous amount of uncertainty in Internet auction transactions, for example, as to whether buyers or sellers really exist. There is likewise also considerable uncertainty as to whether or not buyers will pay, and if they do pay, whether the payment funds are good. Further, if the funds are
15 good, there is a tremendous amount of uncertainty about whether the buyer will actually get the merchandise for which the funds were paid. The risk is a seller's risk, as well as a buyer's risk. The buyer risks not receiving the merchandise for which the buyer paid. The seller's risk lies, for example, in putting the seller's merchandise up for auction and receiving a winning bid, and waiting a month or
20 more to discover that the buyer does not exist or sent bad funds for payment.

SUMMARY OF THE INVENTION

account holders (e.g., holders of checking, savings, credit card, and investment accounts). Thus, all buyers and sellers in auction transactions on the auction site, for example, have accounts with the financial institution, with settlements occurring between the accounts of the users at the financial institution. Payments are debited 5 from the buyer's account(s) with a credit going to the account of the seller, less any fees. All charges occur internally, so no interchange is owed, for example, to a card association in connection with the transaction. Financial institution customers benefit from the system in that buyers and sellers are authenticated and settlement occurs virtually instantaneously.

10 Additional objects, advantages and novel features of the invention will be set forth in part in the description which follows, and in part will become more apparent to those skilled in the art upon examination of the following, or may be learned by practice of the invention.

15

BRIEF DESCRIPTION OF THE FIGURES

In the drawings:

Figure 1 is a schematic of the parties to an auction transaction according to an embodiment of the present invention;

20 **Figure 2** is a registration process according to an embodiment of the present invention;

Figure 3 is a registration process according to an embodiment of the present invention;

payment is very simple, because the payment is made by the financial institution debiting the account of the buyer who bought the item at auction and crediting the account of the seller who sold it through a settlement system 22. Therefore, it is known that the parties are dealing with actual people, or at the very least, viable accounts and that once the transaction occurs, the seller will receive his or her funds.

5 accounts and that once the transaction occurs, the seller will receive his or her funds.

In a first preferred embodiment of the present invention, the funds transfer is virtually instantaneous, allowing the seller to have the benefit of the payment almost immediately. While in a second preferred embodiment of the present invention, the funds are held in escrow until the good(s) are received by the buyer, as discussed

10 below.

Referring to **Figure 2**, in an embodiment of the present invention, a process for participating in the Internet auction website of the current invention begins with the potential seller and the potential buyer each registering with the financial institution's auction website **S2, S12** by providing at least an e-mail address and

15 payment account information. In prompting the seller and buyer for payment account information, the financial institution queries whether or not the seller or buyer holds an account with the financial institution **S4, S14**. When a seller or buyer asserts that they have an account with the financial institution, the financial institution then verifies that the seller and buyer are in fact financial institution

20 account holders, that the account numbers for each are valid, and that each is in good standing **S6, S16**. If the selected account is not found or is not in good standing, registration is denied under that selected account **S8, S18**. This may be accomplished by, for example, an application on the website server which accesses

website under his/her registration ID S22. Similarly, a buyer bids on listed good(s) using his/her registration ID S24. Eventually, a buyer will win the bidding for a listed good(s) S26. In the embodiment described above, both the buyer and seller hold accounts with the financial institution running the auction website. This need
5 not necessarily be the case.

Referring to Figure 3, non-account holders may also participate in the auction website if they hold credit cards from member associations or have other approved accounts with member financial institutions. Member associations and member financial institutions are pre-approved by the auction sponsoring financial
10 institution. Similar to the registration process for the account holders, non-account holder sellers and buyers are prompted for payment account information and the financial institution queries whether or not the seller or buyer holds an account with a member association or member financial institution S30, S40. If no such account is held, then the buyer or seller is denied registration S32, S42. When a seller or buyer
15 asserts that they have such an account with a member association or member financial institution, the sponsoring financial institution then verifies that the seller and buyer are in fact account holders with the member association or member financial institution, that the account numbers for each are valid, and that each is in good standing S34, S44. If the selected account is not found or is not in good
20 standing, registration is denied under the selected account S36, S46.

Once a viable account is selected, the website issues the buyer or seller a registration ID S38, S48 wherein the sponsoring financial institution associates the assigned code with the buyer's or seller's selected account number held through a

Referring to **Figure 4**, in an embodiment of the present invention, the buyers and sellers having accounts with the sponsoring financial institution are prompted to select which account with the financial institution they wish to access for settling the transaction **S60, S62**. The buyer and seller in this embodiment are not required to settle the transaction with the same account under which they registered with the auction website. For any number of reasons (*e.g.*, amount of funds, newly opened account), the buyer or seller may wish to debit or credit an account separate from the registering account. In the specific embodiment of **Figure 4**, once both the buyer and seller have selected their respective accounts/bills, there are at least two payment scenarios, the first is an immediate transferal of the payment from buyer to seller, the second is a transferal of the payment into an escrow account wherein the money is only transferred to the seller upon the occurrence of certain events (*e.g.*, buyer communicates receipt of good(s) to the financial institution). The methods and systems of the embodiments of the current invention may utilize one or both of these payment scenarios.

In a first particular embodiment of **Figure 4**, selecting an exemplary amount for illustration purposes, if the final bid price is less than or equal to \$500, the first, immediate payment scenario occurs. If the final bid price is greater than \$500, the second escrow payment scenario is instituted. Consequently, after the buyer and seller select their respective accounts **S60, S62**, the system internally queries the bid price and compares it to the pre-determined threshold of \$500 **S64**. If the final bid price is less than or equal to \$500 than the buyer's selected account is immediately debited and the seller's selected account is immediately credited **S66**. Both parties

S94. If the good(s) are not acceptable, the auction system of the current embodiment offers the buyer one of two choice for completion of the transaction. The buyer may return the good(s) to the seller or the buyer may request a bargaining session with the seller via the auction system S96.

5 If the buyer chooses to return the good(s), a third time period is set for the buyer to return the good(s) to the seller S98. The system queries whether or not the good(s) have been returned within the third time period S100. If the good(s) are not returned within the third time period, the transaction is considered to be complete, since the payment has been made to the seller and the buyer presumably has the
10 good(s) S102. If the good(s) are returned to the seller within the third time period, a fourth time period is set for the seller to inspect the returned good(s) to make sure they are in the original condition S104. The transaction is considered complete if the financial institution does not hear from the seller in the fourth time period or the seller notifies the financial institution that the good(s) are acceptable S106.
15 Alternately, if the seller notifies the financial institution within the fourth time period that the good(s) are not acceptable S108, the financial institution may refer the seller to legal services to consider the sellers options at his point S109. As a service to the client, the financial institution may offer to reimburse the seller for the nonconformance, up to a set amount. The financial institution may also offer
20 insurance for this sort of occurrence at a reasonable price as an option during the registration process.

Alternately, the buyer may elect to request a bargaining session with the seller due to the fact, for example, that although the good(s) are not in conformance,

must receive the same price quote from both the buyer and the seller before, in this particular embodiment, a charge-back is performed, debiting the seller's account for the difference between the original bid price and the newly agreed upon price, and crediting the buyer's account for the difference S168. In the event that no new price
5 quote is received from both the buyer and seller within the pre-established time period or the buyer does not inform the financial institution that the good(s) have indeed been returned to the seller within the pre-established time period S158, the transaction is considered to be complete in this embodiment S160. Assuming the good(s) are returned to the seller S164, presumably after an unsuccessful bargaining
10 session, steps S104-S109 are followed.

In a second particular embodiment of Figure 4, in the case where the final bid price exceeds \$500, the system in this embodiment does not automatically transfer funds from a buyers account to a sellers account. In this embodiment, the buyer has a chance to inspect and accept the good(s) before the seller is credited from
15 the buyer's account or accounts. The bid amount is deducted from the buyer's selected account and entered into an escrow account S70. This escrow account may take on various forms, but should be managed such that if the good(s) fail to meet the necessary requirements, the buyer is at the very least reimbursed for the original amount debited from his/her account. There are other management scenarios for the
20 financial institutions escrow account, such as where the buyer actually receives interest back on the principle, in addition to the principle, in the case of non-conforming good(s) from the seller. This escrow account may take on various forms, but should be managed such that if the good(s) fail to meet the necessary

good(s), the system queries whether or not the good(s) are in acceptable condition S126. If the good(s) are acceptable, then the seller is credited with the buyer's payment from the escrow account S128. If the good(s) are not acceptable, the auction system of the current embodiment offers the buyer one of two choice for 5 completion of the transaction. The buyer may return the good(s) to the seller or the buyer may request a bargaining session with the seller via the auction system S130.

If the buyer chooses to return the good(s), a third time period is set for the buyer to return the good(s) to the seller S132. The system queries whether or not the good(s) have been returned within the third time period S134. If the good(s) are not 10 returned within the third time period, then the seller is credited with the buyer's payment from the escrow account since the buyer presumably has the good(s) S136. If the good(s) are returned to the seller within the third time period, a fourth time period is set for the seller to inspect the returned good(s) to make sure they are in the original condition S138. The seller is credited with the buyer's payment from the 15 escrow account if the financial institution does not hear from the seller in the fourth time period or the seller notifies the financial institution that the good(s) are acceptable S140. Alternately, if the seller notifies the financial institution within the fourth time period that the good(s) are not acceptable S142, the financial institution may refer the seller to legal services to consider the sellers options at his point S143. 20 As a service to the client, the financial institution may offer to reimburse the seller for the nonconformance, up to a set amount. The financial institution may also offer insurance for this sort of occurrence at a reasonable price as an option during the registration process.

and seller agree on a new price for the good(s), a page is provided to the buyer and seller for submitting the newly agreed upon price **S156**. The financial institution must receive the same price quote from both the buyer and the seller before, in this particular embodiment, the seller's account is credited with the new price from the escrow account and the buyer's account is credited from the escrow account for the difference **S170**. In the event that no new price quote is received from both the buyer and seller within the pre-established time period or the buyer does not inform the financial institution that the good(s) have indeed been returned to the seller within the pre-established time period **S158**, the seller's account is credited with the original amount from escrow in this embodiment **S162**. Assuming the good(s) are returned to the seller **S166**, presumably after an unsuccessful bargaining session, steps **S138-S143**, respectively, may be followed.

A further advantage of the preferred embodiment is the ability of the seller to apply the payment from the buyer to any account or bill currently available for payment through the financial institution. For example, many financial institutions offer services, on-line or otherwise, for automatically paying bills for their customer's from the accounts of the customer's managed by the financial institution. In a preferred embodiment of the present invention, the seller may specifically request that the profit from the on-line auction be directed to, for example, their mortgage payment, car loan, student loan, etc. instead of first going to the seller's checking account and then later being debited therefrom to pay these types of bills.

As discussed with reference to **Figure 3** another aspect of an embodiment of the present invention relates to verification in an Internet auction transaction for a

other words, the sponsoring financial institution takes the collection risk like it does on any other transaction.

As part of the verification and settlement proceedings with member associations and/or member financial institutions, the sponsoring institution may 5 check on the available credit of the member association account holders through conventional credit card authorization lines. Further, the sponsoring institution may, for example, check the availability of funds through the pre-established ATM lines, prior to allowing sellers and buyers to register with the Internet auction website. The sponsoring financial institution may also use the ATM lines to check the availability 10 of a buyer's funds at the member financial institution, prior to releasing funds to a seller after a bid price has been reached. The sponsoring financial institution would then release the funds to the seller and begin external settlement proceedings with the member financial institution.

A further feature of the Internet auction website is the ability of the 15 sponsoring financial institution to track auction performance histories of buyers and sellers who utilize the system. These performance histories include payment and delivery histories of the buyers and sellers as well as purchasing histories of particular buyers and product conformance histories of particular sellers. Using this information, the financial institution may provide information on the reputation of a 20 particular buyer or seller to other prospective buyers and sellers to help facilitate use of the system by trustworthy individuals. Further, by tracking the purchasing habits of buyers, the financial institution may offer as a service to its buyers, notification that certain types of goods have been listed on the auction website. For example, if

We Claim:

1. A method for conducting auctions over a network utilizing an auction website sponsored by a financial institution, the method comprising:
 - 5 (a) identifying a population comprising at least a seller and at least a potential buyer who are account holders of the financial institution;
 - (b) providing each seller and each potential buyer access to the auction website with each seller listing at least one good to be auctioned;
 - (c) conducting an auction to establish a selling price for a good, a
- 10 successful buyer and a successful seller; and
 - (d) upon completion of the auction, debiting a payment account of the successful buyer and crediting a receiving account of the successful seller.
2. The method according to claim 1, wherein the auction website is controlled via a server accessible by the network, the server including a processor and auction software for conducting the auction.
- 15 3. The method according to claim 1, wherein providing each seller and each potential buyer access to the auction website includes registering each seller and each potential buyer with the auction website.
- 20 4. The method according to claim 3, wherein registering each seller and each potential buyer with the auction website includes:
 - verifying that the potential buyers and sellers have at least one viable account with the sponsoring financial institution;

facilitating access to the auction website through a network;

listing goods of registered sellers on the auction website;

accepting bids from registered potential buyers for listed goods of registered sellers through the auction website;

5 recognizing (i) a final bid amount for at least one good listed by a registered seller and (ii) a registered buyer who bids the final bid amount for the at least one good;

prompting the registered buyer of the at least one good to select a buyer's payment account and the registered seller of the at least one good to select a 10 seller's payment account; and

facilitating settlement between the buyer payment account and the seller payment account.

11. The method according to claim 10, wherein registering potential buyers and sellers for the auction website includes:

15 verifying that the potential buyers and sellers have at least one viable account with the sponsoring financial institution;

 upon verification of at least one viable account, issuing an individual registration identification to each of the potential buyers and sellers having at least one viable account with the sponsoring financial institution, wherein the individual 20 registration identification is associated with the at least one viable account.

15. The method according to claim 13, wherein the preferred payment process when the final bid amount is above the pre-determined threshold amount includes:

debiting the buyer's selected payment account for the final bid
5 amount; and

depositing the final bid amount into an escrow account.

16. The method according to claim 15, wherein facilitating settlement between the buyer's payment account and the seller's payment account includes:

setting a first time period within which the seller must deliver the
10 good to the buyer;

when the seller delivers the good to the buyer within the first time period, setting a second time period within which the buyer inspects the goods to determine conformance; and

15 when either (i) the buyer acknowledges conformance of the good within the second time period or (ii) the second time period expires with no further contact from the buyer, retrieving the final bid amount from the escrow account; and

crediting the final bid amount to the seller's payment account.

17. The method according to claim 15, wherein facilitating settlement between the buyer's payment account and the seller's payment account includes:

when the seller determines that the good is in the same condition,
retrieving the final bid amount from the escrow account; and

returning the final bid amount to the buyer's payment account.

19. The method according to claim 15, wherein facilitating settlement
5 between the buyer's payment account and the seller's payment account includes:

setting a first time period within which the seller must deliver the
good to the buyer;

setting a second time period within which the buyer must inspect the
goods to determine conformance when the seller delivers the good to the buyer
10 within the first time period;

setting a third time period within which the buyer either (iii) returns
the good to the seller or (iv) requests a bargaining session with the seller when the
buyer determines that the good is non-conforming;

setting a fifth time period within which the buyer and the seller
15 negotiate a new bid price for the good when the buyer requests a bargaining session
with the seller and the seller agrees to the bargaining session;

comparing the final bid price to the new bid price to determine a
difference, when an identical new bid price is received from both the buyer and seller
within the fifth time period;

20 retrieving the final bid price from the escrow account;

setting a fifth time period within which the buyer and the seller negotiate a new bid price for the good when the buyer requests a bargaining session with the seller and the seller agrees to the bargaining session;

comparing the final bid price to the new bid price to determine a
5 difference when an identical new bid price is received from both the buyer and seller within the fifth time period;

crediting an amount equal to the difference to the buyer's payment account; and

debiting the seller's payment account for an amount equal to the
10 difference.

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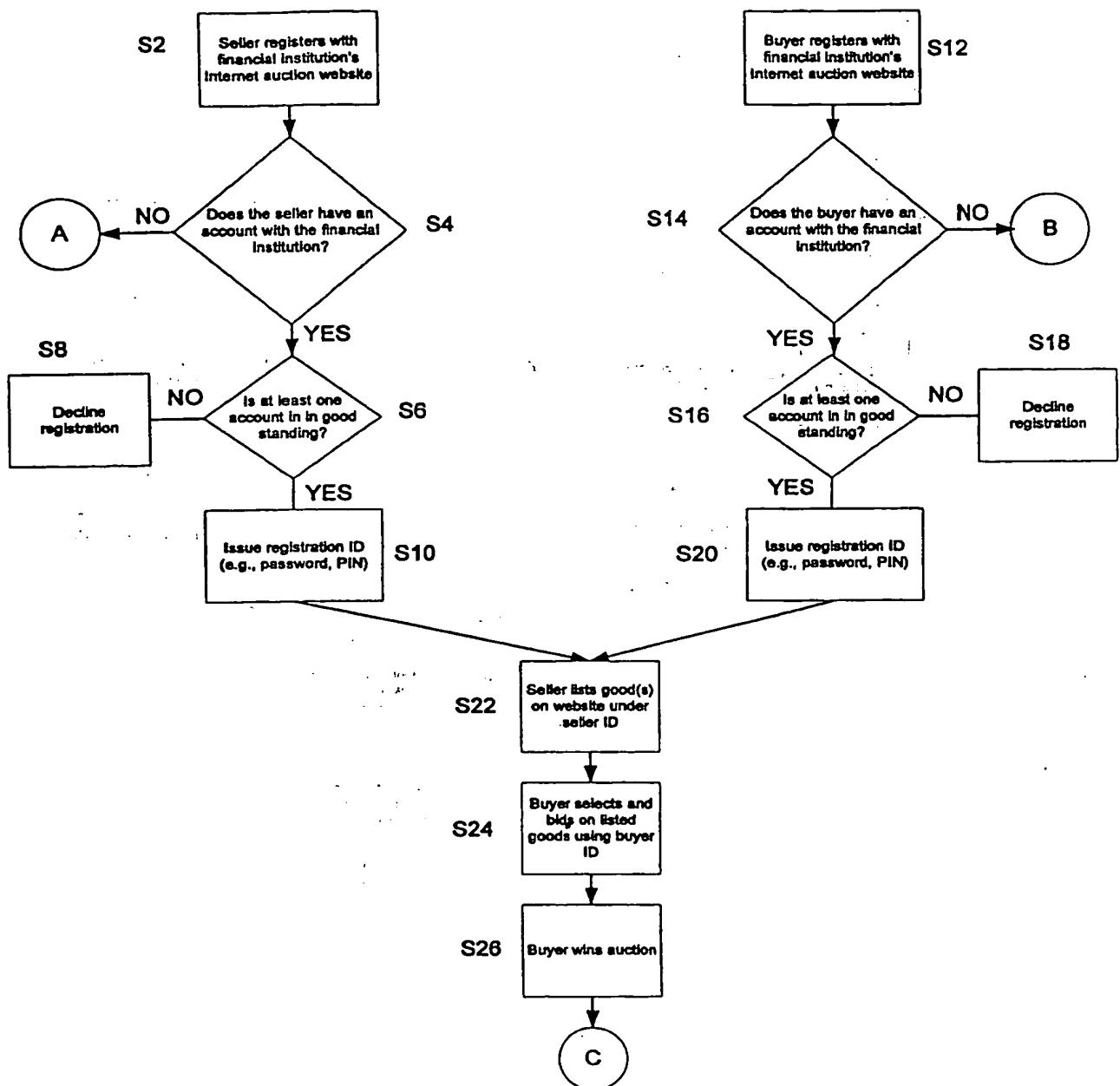


FIGURE 2

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FIGURE 4

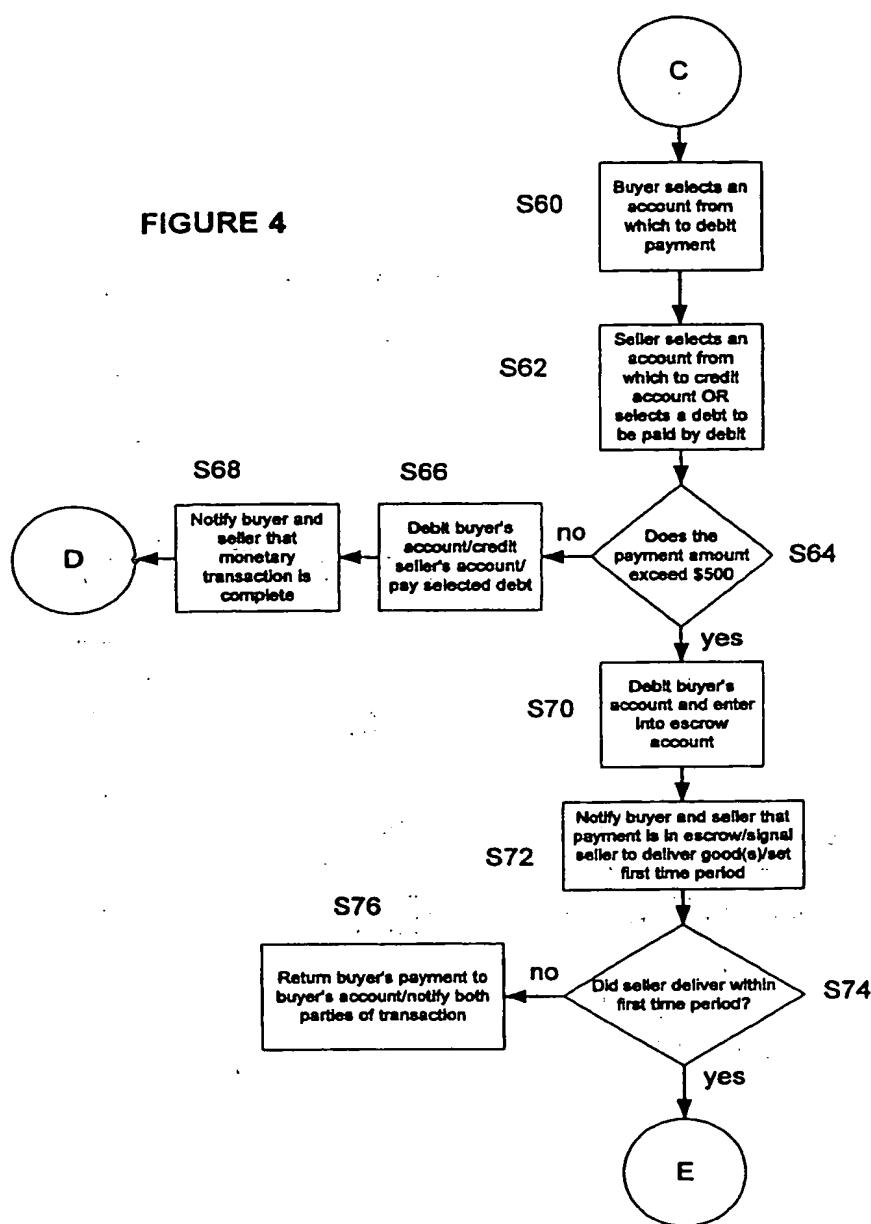
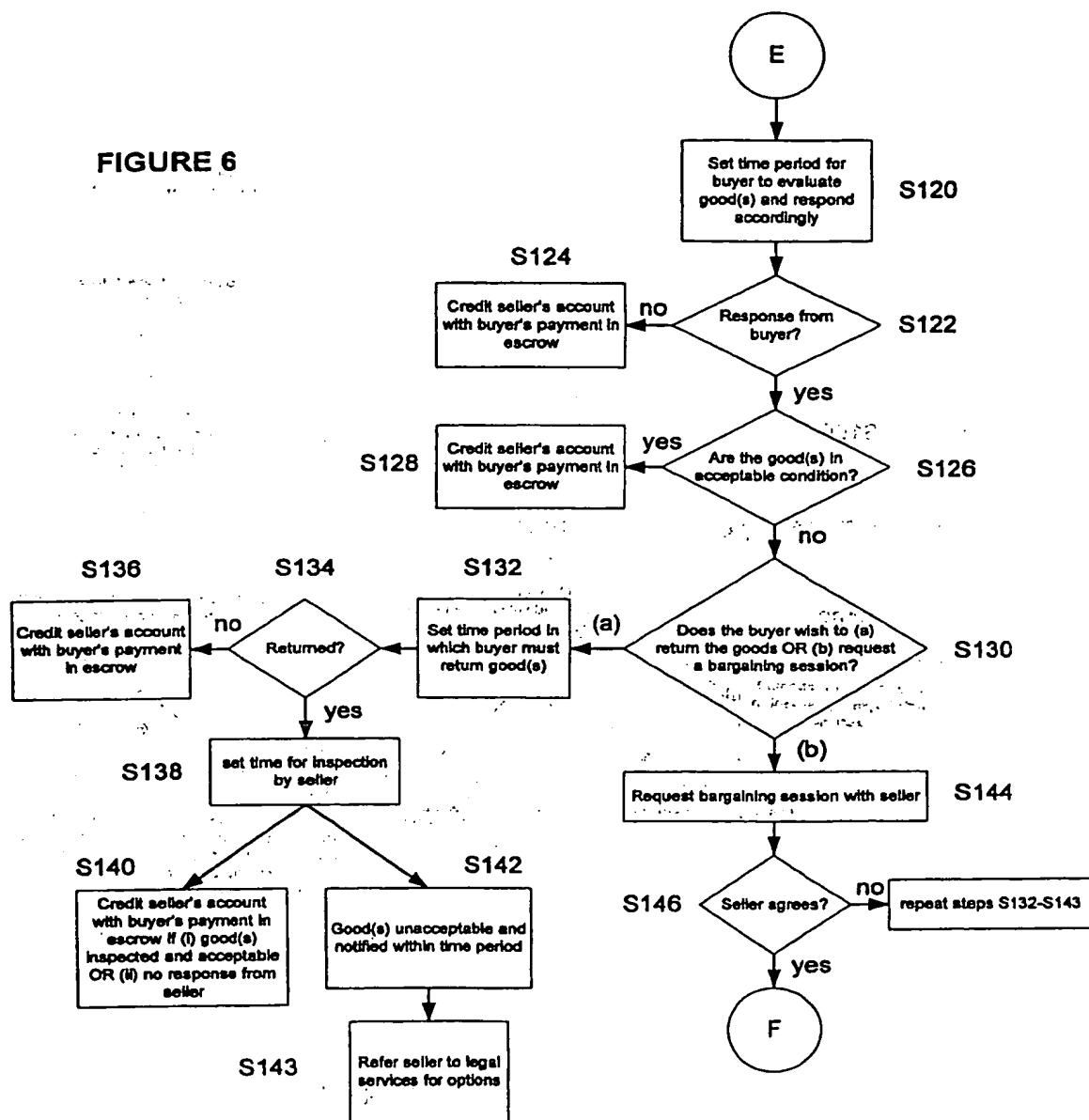


FIGURE 6

INTERNATIONAL SEARCH REPORT

International application No.

PCT/US00/18582

A. CLASSIFICATION OF SUBJECT MATTER

IPC(7) : G06F 17/60
US CL : 705/37

According to International Patent Classification (IPC) or to both national classification and IPC

B. FIELDS SEARCHED

Minimum documentation searched (classification system followed by classification symbols)

U.S. : 705/37, 72,67,75,18,34,44,40,39,35,26,36,23

Documentation searched other than minimum documentation to the extent that such documents are included in the fields searched

Electronic data base consulted during the international search (name of data base and, where practicable, search terms used)
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C. DOCUMENTS CONSIDERED TO BE RELEVANT

Category *	Citation of document, with indication, where appropriate, of the relevant passages	Relevant to claim No.
Y,P	US 6,023,686 A (BROWN) 08 February 2000 (08.02.2000), entire document.	1-21
Y,P	US 5,924,083 A (SILVERMAN et al) 13 July 1999 (13.07.1999), entire document	1-21
Y	US 5,794,207 A (WALKER et al) 11 August 1998 (11.08.1998), summary of the invention	1-21
Y	US 5,890,138 A (GODIN et al) 30 March 1999 (30.03.1999), columns 3 and 4	1-21
Y,P	US 6,084,528 A (BEACH et al) 04 July 2000 (04.07.2000), column 14	5
Y,P	US 6,018,722 A (RAY et al) 25 January 2000 (25.01.2000), column 10, lines 13-15	9

Further documents are listed in the continuation of Box C.

See patent family annex.

* Special categories of cited documents:	
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"X"	document of particular relevance; the claimed invention cannot be considered novel or cannot be considered to involve an inventive step when the document is taken alone
"Y"	document of particular relevance; the claimed invention cannot be considered to involve an inventive step when the document is combined with one or more other such documents, such combination being obvious to a person skilled in the art
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Date of the actual completion of the international search

08 September 2000 (08.09.2000)

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03 OCT 2000

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